Recent Developments in the Spanish Economy, Policy & Funding
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The Spanish economy will maintain a robust growth path: after growing at a rate of 2.6% in 2018, GDP is expected to expand by 2.2% in 2019.

National deleveraging is progressing, by combining growth with a current account surplus:
- Ambitious public debt reduction: Debt-to-GDP ratio in 2018 of 97.1%, down from 98.1%, and expected to close 2019 at 95.8%.
- Impressive private deleveraging: non-financial private sector debt of 152.4%, below the Euro Area average and down from 217.8% in 2010.

Strong pro-European sentiment underpins adjustment resolve:
- Commitment to the Stability and Growth Pact: General Government deficit in 2018 of 2.5%, below the 3% EU reference value, and expected to be reduced in 2019 to 2%.
- Structural reforms: Macroprudential Authority, Agenda for Change under implementation.
- Measures to address unemployment, intergenerational equity, climate change and inequality (economic, territorial and gender) essential for long-term sustainability.

Gradual widening, deepening, improvement of Spain’s investor base.
### Macroeconomic scenario (YoY growth rates in percent)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1</th>
<th>Q2</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tr>
<td>Private consumption expenditure</td>
<td>2.9</td>
<td>2.5</td>
<td>2.3</td>
<td>1.9</td>
<td>1.5</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
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<tr>
<td>General Government consumption expenditure</td>
<td>1.0</td>
<td>1.9</td>
<td>2.1</td>
<td>1.9</td>
<td>2.0</td>
<td>1.9</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
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<tr>
<td>Gross Fixed Capital Formation</td>
<td>2.9</td>
<td>4.8</td>
<td>5.3</td>
<td>4.0</td>
<td>4.7</td>
<td>1.2</td>
<td>3.5</td>
<td>3.3</td>
<td>3.1</td>
</tr>
<tr>
<td>National Demand (Contribution to GDP Growth)</td>
<td>2.4</td>
<td>2.9</td>
<td>2.9</td>
<td>2.3</td>
<td>2.2</td>
<td>--</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
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<tr>
<td>Exports of goods and services</td>
<td>5.2</td>
<td>5.2</td>
<td>2.3</td>
<td>2.7</td>
<td>0.0</td>
<td>1.7</td>
<td>2.8</td>
<td>2.7</td>
<td>2.6</td>
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<tr>
<td>Imports of goods and services</td>
<td>2.9</td>
<td>5.6</td>
<td>3.5</td>
<td>3.1</td>
<td>-0.5</td>
<td>-0.3</td>
<td>2.9</td>
<td>2.8</td>
<td>2.7</td>
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<td>External demand (Contribution to GDP Growth)</td>
<td>0.8</td>
<td>0.1</td>
<td>-0.3</td>
<td>-0.1</td>
<td>0.2</td>
<td>--</td>
<td>0.0</td>
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<tr>
<td>Gross Domestic Product</td>
<td>3.2</td>
<td>3.0</td>
<td>2.6</td>
<td>2.2</td>
<td>2.4</td>
<td>2.3</td>
<td>1.9</td>
<td>1.8</td>
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### Other variables

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1</th>
<th>Q2</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>Unemployment rate (in % of Active Population)</td>
<td>19.6</td>
<td>17.2</td>
<td>15.3</td>
<td>13.8</td>
<td>14.7</td>
<td>14.0</td>
<td>12.3</td>
<td>11.0</td>
<td>9.9</td>
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<td>Full-time Equiv. Employment (YoY Growth)</td>
<td>3.0</td>
<td>2.9</td>
<td>2.5</td>
<td>2.1</td>
<td>2.6</td>
<td>2.5</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
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<tr>
<td>Net lending(+) / borrowing(-) with RoW (% of GDP)</td>
<td>2.4</td>
<td>2.2</td>
<td>1.5</td>
<td>1.2</td>
<td>1.2</td>
<td>--</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
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<tr>
<td>Private Consumption deflator (YoY Growth)</td>
<td>0.0</td>
<td>1.6</td>
<td>1.6</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Headline Balance General Gov't (in % of GDP)*</td>
<td>-4.5</td>
<td>-3.1</td>
<td>-2.5</td>
<td>-2.0</td>
<td>-2.43</td>
<td>--</td>
<td>-1.1</td>
<td>-0.4</td>
<td>0.0</td>
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<tr>
<td>USD/€ exchange rate</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.13</td>
<td>1.14</td>
<td>1.12</td>
<td>1.13</td>
<td>1.13</td>
<td>1.13</td>
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<tr>
<td>Euro Area GDP growth (YoY growth)</td>
<td>1.9</td>
<td>2.6</td>
<td>1.9</td>
<td>1.2</td>
<td>1.2</td>
<td>1.1</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Oil prices (Brent, USD/barrel)</td>
<td>43.3</td>
<td>54.3</td>
<td>70.9</td>
<td>68.9</td>
<td>63.1</td>
<td>69.7</td>
<td>67.6</td>
<td>65.0</td>
<td>65.0</td>
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</tbody>
</table>

* Including Financial Sector One-Offs

Sources: Ministerio de Economía y Empresa and Ministerio de Hacienda.

Shaded areas are realisations. In white, forecasts contained in the 2019 Stability Programme released in April.
Economic sentiment

**IMF Growth Forecasts for 2019**
*Year-on-Year Growth Rates*

Per capita GDP Volume
*Index 1999=100*

% of population that thinks that membership of the EU is a good thing


Source: Instituto Nacional de Estadística.

Source: EUROSTAT.

Spain’s growth pattern

- Current account surplus and net lending capacity vis-à-vis rest of the world
- Subdued inflation and strong job creation
- Rebalancing of weight of construction sector and higher weight of services sector
- Strong investment growth converging to Euro Area average

Source: Instituto Nacional de Estadística.

Exports and Imports of Goods and Services & Gross Fixed Capital Formation (% of GDP)

Gross Value Added (% of GDP)

Source: Instituto Nacional de Estadística.
A recovery intensive in labour creation

- Unemployment down to 13.9%, from a maximum of 26.3% in 2013
- Over 2.5 million jobs created since 2014, equivalent to more than 25% of the total employment generated in the Euro Area
- Falling unemployment fuels internal demand
- Measures to increase job quality in order to fight inequality, foster stability & human capital

Minimum Wage, Total Employees & Salary Cost
(Average Year-on-Year Growth Rates)

Falling unemployment fuels internal demand

Measures to increase job quality in order to fight inequality, foster stability & human capital

Source: EUROSTAT.

Minimum Wage & Productivity/Minimum Wage
(Euros and ratio)

Source: EUROSTAT.
Banking sector adjustment

- Adjustment of the banking sector:
  - Downsizing & loss recognition
  - Enhanced capitalisation and profitability
- Strong improvement in NPLs: harmonised NPL ratio below Euro Area average
- EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- Establishment of Macroprudential Authority

![Loan-to-Deposits & Equity to Assets](chart)

**Return on Equity**

![Return on Equity Chart](chart)

**Harmonised NPL Ratio**

![Harmonised NPL Ratio Chart](chart)

*Source: EBA. Risk Dashboard Interactive Tool.*
Deleveraging process

- Total debt has decreased by 88.5pp of GDP, and private sector debt by 65.4pp of GDP
- Households & nonfinancial corporations’ leverage now below Euro Area average
- Bank of Spain the only source of added “leverage”: a consequence of monetary policy

**Gross External Debt By Debtor Sub-Sector (% GDP)**

Source: Bank of Spain.

**Non-Financial Private Sector Debt Dynamics (% of GDP. Non-Consolidated)**

Source: Bank of Spain, EUROSTAT, and Instituto Nacional de Estadística.

NOTE: The gross external debt position equals total IIP liabilities excluding all equity (equity shares and other equity) and investment fund shares and financial derivatives and employee stock options.
Result: persistent growth with current account surplus

Nominal GDP Growth vs. Current Account/GDP

Source: Instituto Nacional de Estadística and Bank of Spain.
Structural Reform: Agenda for Change built around 7 pillars

1. Education and Human Capital
   - Improve educational competences and fight against school failure
   - Adjust education to the requirements of the labour market

2. Ecological Transition
   - Aimed at reducing greenhouse gas emissions by one third and having renewable energies account for 70% of the electricity system by 2030

3. Scientific and Technological Advancement
   - Foster public and private investment in R&D
   - Promote knowledge and innovation in order to boost productivity and competitiveness

4. Efficient and Fair Labour Market
   - Reduce the existing duality in the labour market
   - Guarantee the long-term sustainability of the Social Security system

5. Inequality and Welfare State
   - Fight against poverty and, more specifically, child poverty
   - Tackle the gender gap

6. Public Sector Efficiency
   - Modernize the judicial administration
   - Improve public expenditure efficiency

7. Taxation
   - Adapt the fiscal system to make it more fair and balanced
   - Adjust it to the new economic activities and to the new sources of income and wealth
Fiscal policy framework: 2019-2022 Stability Programme Update

Net Lending(+) / Borrowing. (% of GDP)

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<tbody>
<tr>
<td>Central Government</td>
<td>-7.94</td>
<td>-4.84</td>
<td>-3.68</td>
<td>-2.76</td>
<td>-2.65</td>
<td>-1.89</td>
<td>-1.36</td>
<td>-0.5</td>
<td>-0.1</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Autonomous Regions</td>
<td>-1.87</td>
<td>-1.58</td>
<td>-1.78</td>
<td>-1.73</td>
<td>-0.86</td>
<td>-0.36</td>
<td>-0.23</td>
<td>0.3</td>
<td>-0.1</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Local Governments</td>
<td>0.32</td>
<td>0.55</td>
<td>0.53</td>
<td>0.42</td>
<td>0.62</td>
<td>0.61</td>
<td>0.52</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Social Security</td>
<td>-0.98</td>
<td>-1.13</td>
<td>-1.04</td>
<td>-1.21</td>
<td>-1.58</td>
<td>-1.44</td>
<td>-1.41</td>
<td>0.0</td>
<td>-0.9</td>
<td>0.4</td>
<td>0.0</td>
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<tr>
<td>General Government</td>
<td>-10.47</td>
<td>-6.99</td>
<td>-5.97</td>
<td>-5.27</td>
<td>-4.47</td>
<td>-3.08</td>
<td>-2.48</td>
<td>-2.0</td>
<td>-1.1</td>
<td>-0.4</td>
<td>0.0</td>
</tr>
</tbody>
</table>


Source: Ministerio de Hacienda.

General Government Interest-to-Revenue and Interest-to-GDP Ratios (In %)

Source: Ministerio de Economía y Empresa.


Source: Bank of Spain and Ministerio de Economía y Empresa.

Fiscal policy framework: Regional Finances

- Continued fiscal consolidation of the regions leading to the gradual and conditional recovery of their financial autonomy
- Several regions already funding themselves fully in the markets
- Backstop mechanisms will be kept in place under certain conditions

Regional Government
Net Lending (+)/ Borrowing (-)
(% of regional GDP)

Source: Ministerio de Hacienda.
The Treasury’s funding programme in 2019

- The Government’s commitment to fiscal consolidation has allowed to review the total net issuance in 2019 down to €20 bn, the lowest since 2007 and 42.9% below the January target.

- Total issuance up to September 5th: €141.1 bn, 72.6% of the funding programme.
  - Medium- and long-term: €90.9 bn (79.5%), and
  - Short-term (Letras del Tesoro): €50.2 bn (62.7%)

**The Treasury’s Funding Programmes since 2012 (In € bn)**

![Graph showing the Treasury’s Funding Programmes since 2012](Graph_12.png)

**Funding Programme in 2019**

<table>
<thead>
<tr>
<th>(In billion euros and in effective terms)</th>
<th>End 2018</th>
<th>Forecast 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Issuance</td>
<td>34.277</td>
<td>20.000</td>
</tr>
<tr>
<td>Total Gross Issuance</td>
<td>212.964</td>
<td>194.525</td>
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<tr>
<td><strong>Medium- and Long-term</strong></td>
<td></td>
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<tr>
<td>Gross Issuance</td>
<td>131.979</td>
<td>114.433</td>
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<tr>
<td>Amortisation</td>
<td>89.310</td>
<td>91.933</td>
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<tr>
<td>Net Issuance</td>
<td>42.669</td>
<td>22.500</td>
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<td><strong>Letras del Tesoro</strong></td>
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<tr>
<td>Gross Issuance</td>
<td>80.984</td>
<td>80.092</td>
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<tr>
<td>Amortisation</td>
<td>89.377</td>
<td>82.592</td>
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<tr>
<td>Net Issuance</td>
<td>-8.393</td>
<td>-2.500</td>
</tr>
</tbody>
</table>

*Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

Source: Secretaría General del Tesoro y Financiación Internacional.
Cost and life of debt: a longer portfolio at historically low rates

- Historic lows in average cost of debt outstanding (2.35%) and cost at issuance (0.37%)
- Since 2013 average life of debt outstanding has increased from 6.20 to 7.55 years

*As of 06/09/2019
Recent trends in investor base

- Bank of Spain PSPP holdings at 21.5%
- Spanish banks have reduced absolute and relative holdings of Spanish bonds, and now represent 15.8% of total holdings
- Non-residents up to 47% of total holdings, with new regions, notably Asia, stepping in

**Holdings of Letras & Bonos and Obligaciones del Estado (% Structure)**

**June New 10 Year Reference - Oct. 2029**

**Geographic Distribution (%)**

- Asia: 10.7%
- Other: 5.5%
- Spain: 14.0%
- France / Italy: 15.6%
- US / Canada: 6.7%
- UK / Ireland: 26.1%
- Nordics: 3.3%
- Others: 1.1%

**By Type of Investor (%)**

- Pension / Insurance: 13.5%
- Others: 1.1%
- Bank: 20.9%
- Fund Manager: 47.4%
- Central Bank / CHN: 8.3%

Government bond holdings as % of Spanish bank’s balance sheet.

**Source:** Bank of Spain.

**Source:** ECB.
Ratings

- Expecting more foreign investors after recent upgrades: A stable outlook (DBRS), A- positive outlook (S&P), A- stable outlook (Fitch), Baa1 stable (Moody’s)

Source: Ministerio de Economía y Empresa.
Thank you for your attention

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